



Defence Vetting Agency

Annual Report and Accounts 2008 - 2009



# Annual Report and Accounts 2008 - 2009



Defence Vetting Agency

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of the Government Resources and Accounts Act 2000.

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### Vetting Abbreviations used in this report

CTC – Counter terrorist check
DV – Developed vetting
DVA – Defence Vetting Agency
DVP – Defence Vetting Programme
KT – Key Targets
MOD – Ministry of Defence
NSV – National Security Vetting
SC – Security check

## Chief Executive's - Statement

2008-2009 has been an exceptional year for the Defence Vetting Agency. We have once again improved our delivery of Agency key targets so that the majority were exceeded.

Our position as one of only two National Security Vetting (NSV) service providers for government vetting was confirmed. Against this backdrop we increased the range of business from Other Government Departments and Non Departmental Public Bodies, and secured new work from a number of departments in Northern Ireland, and the the vetting of contractors for the Governments Communications Headquarters. We also opened negotiations with a number of other potential customer areas.

This takes us closer to delivering to our aspiration of processing more than 90% of all government NSV.

Our business case for a replacement information technology system (Cerberus) was granted. Development work is on target for delivery by June 2010. This system has also been accepted by the Cabinet Office as the single government platform for NSV.

We continue to improve the quality of our work by further reviewing the instructions and training given to our staff. Specifically we have delivered improvements to our data handling and data security regimes. Guidance has also been provided on a range of other policy issues such as, nationality and residency, international clearances, clearance transfers, and processes which must be carried out to ensure that the subject's human resource record is updated with NSV data.

All this could only be achieved by the commitments and dedication by people at all levels and in all parts of the Agency. It also reflects the support we receive from our Owner, his staff and other stakeholders and customers throughout the MOD, and from our repayment customers.



Jacky Ridley - Chief Executive  
25th June 2009

# Part 1 Report

## Management commentary

The Defence Vetting Agency (DVA) is an Executive Agency of the Ministry of Defence (MOD). We are the largest UK government organisation carrying out National Security Vetting (NSV) and the only government organisation whose core business is NSV.

Within the defence community we provide NSV through direct financing to the three Armed Services, MOD civil service, and defence contractors. We also deliver a range of NSV services on a repayment basis to a growing community of customers across the public sector.

This Annual Report and Accounts is broken into two parts. Part 1 records performance against the Key Targets and lists achievement against our business plan for 2008-2009. Part 2 presents the audited accounts.

Through our work we contribute to the Government Public Service Agreements (PSAs) that counter possible internal and external threats to the UK. NSV is one of a range of protective security measures designed to minimise these threats. Our work contributes towards a safe and secure UK by identifying, through a risk based approach, those people who should be prevented from having access to sensitive information or sites.

The policy for NSV is owned by the Cabinet Office who set the standard to be followed through its Security Policy Framework. HM Treasury and the Cabinet Office are seeking improvements in value for money and the speed of vetting. With these aims in mind the Cabinet office committee on security has agreed that our new IT case management system (Cerberus) will be the single IT system for NSV across government. The Cabinet Office has also endorsed the DVA as one, of only, two government providers of NSV services.

## Our vision, mission, role, values and ideals

Our vision is to be recognised as the lead organisation on NSV process and risk based personnel security assessment across government.

Our mission is to deliver a quality, customer focused and efficient NSV service.

Our role is to carry out NSV in line with the Cabinet Office standard. Where required, we provide a risk based assessment about the suitability of people to have access to sensitive information or valuable assets.

Our values and ideals are to ensure that we:

- work together across organisations sharing knowledge and skills.
- are approachable, open and honest.
- ask our customer's views, and learn from them.
- explain what we are doing and why.
- involve and develop our workforce, and encourage people from different backgrounds.
- continuously improve and celebrate success.

# Service standards

## Security

Data provided by our customers has to be secure, so our:

- Management of data meets Cabinet Office requirements.
- IT systems are security accredited.
- People are trained in security procedures.
- Processes comply with the Data Protection Act.
- Systems have been tested for Business Continuity purposes.

## Speed of service

Our customers demand a fast response, so we:

- Can demonstrate a trend in improved clearance times since 2001/02.
- Work in partnership with our third party suppliers to ensure that we get the best from them for the benefit of our customers.
- Have embedded staff with one of our third party suppliers to help improve end to end clearance times.
- Offer routine and priority services.

## Quality

Customers need a quality service, so we:

- Consistently achieve our Key Targets.
- Meet the Cabinet Office minimum standards for vetting.
- Will apply higher vetting standards if this is requested by customers.
- Assure our products by continuous internal quality verification.
- Are the only NSV Customer Service Excellence organisation in government.

## IT innovation

Customers expect cutting edge IT processes, so we:

- Are developing our IT systems to include a new database, the new Cerberus case management system, and more 'e' solutions.
- Are developing our IT solutions on behalf of the Cabinet Office for all government vetting organisations.
- Has trialled an e-form for the submission of vetting forms.
- Leading the redevelopment of the NSV applications forms for government.

## Customer service

Customers want real support, so with the DVA they can:

- Call our dedicated Help desk.
- Regularly use our feedback system.
- Experience our familiarisation visits.
- Be part of our quarterly Customer Advisory Group meetings.
- Network with our team at Customer Open Days.
- Rely upon our Customer Service Standards.
- Know that any complaints will get our full and immediate attention.

## Value for money

Our Shared Service customers have to get value for money, so with the DVA they can:

- Choose from our 'pick and mix' menu of services.
- Budget using our binding price list.
- Negotiate their own Customer Supplier Agreements (CSA).
- Benefit from our year-on-year efficiency improvements.
- Be sure we deliver both high volume, and small niche requirements.
- Monitor our progress against their CSA.

## What we do

We process three main types of NSV clearances and checks in order to provide assurance that will allow people access to sites and un-restricted access to material up to Top Secret level:

- Counter Terrorist Check (CTC) allowing employment in posts with proximity to public figures, access to information or material assessed to be of value to terrorists, or require access to locations at risk from terrorist attack.
- Security Check (SC): allowing substantial access to Secret assets or occasional controlled access to Top Secret assets or information.
- Developed Vetting (DV): allowing substantial and unsupervised access to Top Secret assets or information.

We also undertake other work:

- Aftercare: Managing post clearance instances and reviews.
- Employment checks: co-ordinating MOD Criminal Records Bureau checks that are needed by people being considered for employment with children or vulnerable adults.
- Transfers: arranging transfer of clearances between sponsors where this is applicable.
- Change of personal circumstances: re-assessing clearances as a result of lifestyle changes such as marriage or divorce.

The table below shows the volume of this work we processed.

### Vetting for defence customers

Vetting category	2007-2008		2008-2009	
	New applications	Completions	New applications	Completions
CTC	7,958	8,652	8,477	8,936
SC	93,494	103,623	95,022	93,850
DV	8,755	8,236	10,346	10,136
Total	110,207	120,511	113,845	112,922

### Vetting for repayment customers

Vetting category	2007-2008		2008-2009	
	New applications	Completions	New applications	Completions
Other NSV checks	344 estimated	344	3,222 estimated	3,222
CTC	1,112	974	2,676	2,202
SC	5,612	5,262	6,987	6,386
DV	3,198	3,139	3,223	3,324
Total	10,266	9,719	16,108	15,134

### Other vetting work outside of the Key Targets

Vetting category	2008-2009
Transfers	8,100
Change of personal circumstances	2,200
Annual security appraisals	13,100
Aftercare cases	2,600
Cancellations	21,400

# Our Key Target performance

In 2008-09 we were set 5 Ministerial Key Targets covering the quality, timeliness, and efficiency aspects of our business. We met or exceeded all our Key Targets with the exception for one sub-element of our priority Key Target:

## **KT1 External Validation of Quality**

**To achieve at least a 98% satisfaction rating with 200 cases independently selected and reviewed.**

An independent panel of Reviewers measure the quality of our vetting decisions against a set of agreed criteria. Validation exercises take place twice a year to review a selection of completed casework.

### **Trends and achievement**

	2004/05	2005/06	2006/07	2007/08	2008/09
Targets	95%	98%	98%	98%	98%
Performance	97%	99%	100%	99%	100%

## **KT2 Delivering Customer Service**

**Maintain the Customer Service Excellence accreditation standard (formally known as Charter Mark).**

We were re-assessed in January 2009, and in April 2009 were awarded the Customer Service Excellence Standard. This Government wide initiative has been developed to offer public services a practical tool for driving customer-focused change with the emphasis on developing customer insight and measuring service satisfaction.

## **KT3 Achieve the following process times for routine cases by:**

**Completing 75% of CTC and SCs within 30 calendar days, and 83% of defence DVs within 100 calendar days.**

### **Trends and achievement**

	2004/05	2005/06	2006/07	2007/08	2008/09
CTC targets	62%	62%	65%	75%	75%
Performance	55%	51%	75%	62%	88%
SC targets	65%	65%	65%	75%	75%
Performance	55%	49%	70%	46%	88%
DV targets	50%	83%	83%	83%	83%
Performance	85%	91%	82%	82%	87%

**KT4 Achieve the following process times for priority cases by:  
Completing 90% of CTC and SCs within 10 calendar days and  
80% of DVs within 30 calendar days.**

**Trends and achievement**

	2004/05	2005/06	2006/07	2007/08	2008/09
CTC/SC targets	45%	85%	85%	85%	(90%) Note 1
Performance	77%	88%	99%	96%	(90.3) Note 1
CTC target	-	-	-	-	90%
Performance	-	-	-	-	74%
SC target	-	-	-	-	90%
Performance					94%
DV targets	90%	90%	80%	80%	80%
Performance	67%	88%	80%	86%	93%

*Note1: These figures are shown for comparative purposes.*

**KT5 Improving efficiency**

**Reduce the Unit Cost of Output by 2%.**

This target is aimed at improving efficiency by reducing the Unit cost of Output (UCO), through the processing of more clearances with fewer resources. We measure the extent to which we are becoming more efficient through annual accumulated percentage variations in the UCO. The UCO covers the cost of each of the main vetting products that are aggregated into a single figure to show:

- The value of the UCO expressed in cash terms; and
- The percentage change year on year.

The target is to maintain a year-on-year improvement. We have a good record in this respect. Through collocation, amalgamation, better working practices, and the introduction of our first and second WARRATOR IT systems after we moved to York. The UCO has reduced by around 25% between 2003 and 2008 (£34.65 to £25.83). Further efficiencies are expected after the introduction of our new Cerberus IT system in 2010-2011.

**Trends and achievement**

	2004/05	2005/06	2006/07	2007/08	2008/09
UCO	£28.76	£28.25	£27.43	£26.85	£25.83
Targets	-2%	-2%	-2%	-2%	-2%
Performance	-1.8%	-2.9%	-2.1%	-3.8%	-2.0%
Cash actual	£28.25	£27.43	£26.85	£25.83	£25.31

# Business plan review

A total of 159 individual targets were set in our 2008-2009 Business Plan to help us deliver our strategy for the future. 82% of these targets were achieved or are progressing satisfactorily. The remainder were not delivered because of higher priorities, or the impact of ongoing IT issues. These business targets are linked to our 5 strategic themes, that when achieved in full will help us achieve our Vision of becoming the lead UK organisation on NSV work, meeting the expectations of customers and stakeholders.

**Strategic theme 1 Continually seeking to improve quality and policy** so that our NSV products are fit for purpose and provide the level of assurance our customers require:

## Achievements

- The external quality key targets were either met or exceeded.
- Our new Policy and Quality team moved forward on a range of policy and quality issues, issuing a suite of updated vetting policy advice to address the most common issues.
- An internal quality assurance checking regime was designed, agreed, and implemented, providing monthly feedback to the operations staff to ensure good practice and lessons are learnt.
- A series of internal and external benchmarking exercises were agreed and implemented, evaluation of this work is ongoing.
- A suite of training briefs for each vetting post were developed and implemented.
- Our data security procedures were reviewed and found to be compliant with Cabinet Office and MOD policy.
- There were no personal data security incidents that were serious enough to be reported to MOD centre or to the Information Commissioner's Office.

**Strategic theme 2 Enabling our business** by being re-accredited as a Customer Service Excellence organisation, and ensuring that we are ready to move forward to meet the future shared service requirements for NSV.

## Achievements

- We achieved the Customer Service Excellence standard.
- Our new Cerberus IT project moved from Invitation to tender, to award of the contract to Logica plc. The preparation of new business rules and functional specification for the new system are on project schedule.
- A further, and probably the final, upgrade to WARRANTOR was successfully implemented.
- Good progress was made to better understand and manage information and knowledge within the Agency. A strategy was agreed and roles and responsibilities allocated to a small team within the strategic programme area. A particular priority has been the preparation work to migrate the DVA to the new MOD DII(F) IT platform, which is now planned for January 2010.
- Our business continuity plan was retested, and refined. Business continuity was tested by a range of IT issues during the year.
- A review was completed of our home based vetting officers to ensure that safe arrangements for lone working are in place. Benchmarking with the MOD welfare officers service took place, together with training provided by the Suzy Lamplugh Trust.
- A range of community relations initiatives have been supported to help not only our local community in York, but more widely through the Princes Trust and Project Druidstone and the voluntary work undertaken by our vetting officers.

**Strategic theme 3 Improving vetting service delivery** by achieving our Key Targets, making improvements to the exchange of vetting information with our customers and stakeholders, and improving the help desk facility.

#### Achievements

- With the exception of priority CTC casework, vetting clearances exceeded the Key Target standards for quality, timeliness, and efficiency;
- A process was agreed and implemented to transfer vetting data between our current WARRANTOR vetting system and the two MOD civilian and military HR systems. This allows, for the first time, people to check the status of their own clearances without needing to contact the Agency. Over time it will also significantly improve the currency of vetting clearances;
- During the FY the Help desk processed:
  - 127,585 phone calls, representing about 382,755 queries based on an average 3 queries per call.
  - 6,878 faxes and emails that resulted in 35,535 vetting status checks being made.

#### Data protection

The Data Protection Act 1998 allows individuals the right to see what information is held about them and gives them the right to ensure that the information is processed lawfully. We are Data Protection compliant and will release data held on individuals on request, subject to certain exemptions such as information provided in confidence by third parties and the safeguarding of national security. The data collected and used to process vetting enquiries will not be used for any other purpose, nor will it be passed to an organisation not directly concerned with the vetting process, other than in exceptional circumstances. The table below shows how many requests we cleared.

	2007-2008	2008-2009
Subject access requests	89	67

#### Parliamentary and public enquiries

	2007-2008	2008-2009
Parliamentary questions	4	4
Ministerial correspondence	9	20
Correspondence from MPs direct to the Chief Executive	2	5
'Treat Official' correspondence	4	15
Freedom of information requests	25	72

**Strategic theme 4 Resources and improving efficiency** by setting ourselves a range of objectives to ensure that our resources, both financial and staffing are efficiently used.

#### **Achievements**

- Our accounts met the National Audit Office standard;
- An accommodation refit was completed, that moved the majority of York based staff to an open plan environment, leading to better team working and more efficient use of the space available.
- HR Workforce, skills and succession planning was developed.
- We are on target to meet Investors in People standard reaccreditation.
- Commenced working towards achieving the Investors in Diversity standard.
- A full programme of corporate governance and assurance checks were complete.
- A programme of audits was completed by Defence Internal Audit. All received positive assurance opinions.
- A MOD sponsored audit covering Safety, health environment and fire (SHEF): confirmed that staff exhibited a positive attitude to SHEF matters.
- There were no environmental incidents to report. Our Green Group continue to meet to identify ways to improve environmental conservation, and propose initiatives.

**Strategic theme 5 Business development** by developing and implementing our customer and stakeholder strategies, and proactively obtaining new business in line with the shared service requirement.

#### **Achievements**

- A survey of customer and stakeholders needs was completed on our behalf by the MOD Defence Analytical Services and Advice (DASA). Analysis and report writing should be completed by July 2009.
- We funded the outsourcing of two people to one of our main third party data suppliers.
- The volume of repayment vetting applications increased by 14% compared with FY 2007/08.

# Remuneration report

## **Remuneration policy**

Our Management Board is made up of Civil Servants. The salaries of all members, including the Chief Executive, are set at national level. Our Chief Executive's pay package was set by the senior civil service salaries review body, while the salaries of the other members of the Board were set by negotiation between the MOD and Civil Service Trade Unions.

## **Service Contracts**

With the exception of our two non-executive directors, all members of our Management Board are MOD civilians and are appointed by civil service standard procedures. The officials covered by this report hold appointments which are open-ended. If we end contracts early, other than for misconduct, they would result in the individual receiving compensation as set out in the civil service compensation scheme. The remuneration (while a member of the Agency Management Board) and pension entitlements of the members of the Board during the financial year are shown on the next pages. The non-executive directors are appointed via open competition on fixed term contracts. The following tables have been subject to audit.

## 2007 - 2008

	Remuneration Including Pay Performance (£000)	Real increase in Pension and related lump sum at age 60 (£000)	Total Pension at age 60 at 31 March 2008 (£000)	Cash Equivalent Transfer Value at 1 April 2007 (£000)	Cash Equivalent Transfer Value at 31 March 2008 (£000)	Real Increase in Cash Equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive	75-80	0 – 2.5 plus 0–2.5 lump sum	30–35	571	670	16
Miss A Hulme Head of Vetting Operations (from 24 May 07)	40-45	2.5 – 5.0 plus 5-10 lump sum	15–20	220	323	50
Mr M Revell Head of Customer Relations & Marketing	45–50	0–2.5	10–15	169	204	9
Mr K Connar Head of Primary Clearance Division (to 24 May 07)	5-10	0–2.5 plus 0–2.5 lump sum	15–20	380	448	15
Mr M Wraight Head of Developed Clearance Division (to 24 May 07) Head of Policy, Plans and Quality (from 24 May 07)	45-50	0–2.5 plus 0–2.5 lump sum	15–20	232	277	5
Mrs J Shaw Head of Primary and Developed Vetting (from 24 May 07)	35-40	0–2.5 plus 0–2.5 lump sum	0–2.5	2	0	7
Mrs J J Wheeler Head of Planning (to 20 Sept 07)	20–25	0–2.5 plus 0–2.5 lump sum	10-15	240	284	4
Mr M K Barley Head of Strategic Programme (from 20 Sept 07)	20-25	0–2.5 plus 0–2.5 lump sum	20–25	452	511	1
Mrs S J Farley Head of Resources	35-40	0–2.5 plus 0–2.5 lump sum	10–15	123	152	7
Mr M A Calaminus Head of Field Investigations Division (from 1 Apr 07 to 24 May 07) (from 28 Jan 08)	10–15	0–2.5 plus 0–2.5 lump sum	5–10	93	129	2
Mr W H Buckley Non Executive Director	5-10 (NED Fees) 0-5 (other Fees)					
Mr B Newton Non Executive Director	10-15 (NED Fees) 5-10 (other Fees)					

Note: Mr Newton received £12,785 during 2007- 08 for the performance of his duties as a Non-Executive Director. He was also paid £7,886 for other work done in the year in support of the Department not directly related to his non-Executive role. Mr Buckley received £8,400 during 2007-08 for the performance of his duties as a Non-Executive Director. He was also paid £3,000 for additional NED work in direct support of the DVA's e-transformation project.

## 2008 - 2009

	Remuneration Including Pay Performance (£000)	Real increase in Pension and related lump sum at age 60 (£000)	Total Pension at age 60 at 31 March 09* (£000)	Cash Equivalent Transfer Value at 1 April 08 (£000)	Cash Equivalent Transfer Value at 31 March 09 (£000)	Real Increase in Cash Equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive	80-85	0 – 2.5 plus 0–2.5 lump sum	30–35	622	681	2
Miss A Hulme Head of Vetting Operations	55-60	2.5 – 5.0 plus 2.5-5 lump sum	20–25	295	339	16
Mr M Revell Head of Customer Relations & Marketing (to 30 April 08)	0–5	0–2.5 plus 0-2.5	10–15	192	194	1
Mr B Truscott Customer Relations Manager 30 April 08 to 23 Feb 09)	40-45	0–2.5 plus 0–2.5 lump sum	15–20	286	338	2
Miss J A Coates Customer Relations Relations & Marketing (From 23 Feb 09))	5-10	0–2.5 plus 0–2.5 lump sum	5–10	97	93	2
Mr M Wraight Hd Policy Plans & Quality	45-50	0–2.5 plus 0–2.5 lump sum	15-20	258	284	5
Mrs J Shaw Head of Primary and Developed Vetting	50–55	0–2.5 plus 0–2.5 lump sum	15-20	176	200	8
Mr M D Fairbotham Head of Strategic Programme (to 17 Jul 09)	35–40	0–2.5 plus 0–2.5 lump sum	0-5	28	33	5
Mr M K Barley Head of Planning (to 17 Jul 08)	15-20	0–2.5 plus 0–2.5 lump sum	20–25	503	530	20
Mrs S J Farley Head of Resources	40-45	0–2.5 plus 0–2.5 lump sum	10–15	135	152	5
Mr M A Calaminus Head of Field Investigations Division	40–45	0–2.5 plus 0–2.5 lump sum	5–10	119	135	12
Mr W H Buckley Non Executive Director	5-10 (NED Fees) 0-5 (other Fees)					
Mr B Newton Non Executive Director	10-15 (NED Fees)					

Note: Mr Newton received £14,763 during 2008-09 for the performance of his duties as a Non-Executive Director. Mr Buckley received £6,200 during 2008-09 for the performance of his duties as a Non-Executive Director. He was also paid £4,600 for additional NED work in direct support of the DVA's e-transformation project.

\* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

**Salary:**

'Salary' includes gross salary; performance pay or bonuses, overtime, reserved rights to London weighting or London allowances; recruitment and retention allowances and any other allowance that is taxed in the UK.

**Benefits in kind**

The monetary value of Benefits in Kind covers any benefits we provide and which are treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind provided during the year.

**Pension:**

Pension benefits are provided through the civil service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory-based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are not funded, with the cost of benefits paid for with money voted by Parliament each year. Pensions paid under classic, premium and classic plus are increased each year in line with changes in the Retail Prices Index. People joining the schemes after October 2002 may choose between being a member of premium or joining a good-quality 'money purchase' stakeholder-based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits build up at the rate of 1/80 of pensionable salary for each year of service. They are also given a lump-sum equivalent to three years' pension when they retire. For premium, benefits build up at the rate of 1/60 of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits for service before 1 October 2002 worked out in broadly the same way as for classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension chosen by the employee. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Columns 5 and 6 of the pensions table show the member's cash equivalent transfer value (CETV) built up at the beginning and the end of the reporting period. Column 7 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A cash equivalent transfer value (CETV) is the capitalised value of the pension scheme benefits accrued by the member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to buy pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits from their former scheme. The pension figures shown relate to the benefits that the individual has built up as a result of their total membership of the pension scheme. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the civil service pension arrangements and for which the civil service vote has received a transfer payment which equals the extra pension liabilities they are taking on. They also include any extra pension benefit built up by the member as a result of buying extra years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Apart from the Head of Primary and Developed Vetting Division (Mrs Shaw) who chose the Premium Scheme, the Chief Executive and other members of the Agency Management Board chose to stay in the classic pension scheme.

The members of the OAB receive no remuneration from us. The MOD pay the salaries and expenses for those members who are MOD staff.

Our non-executive directors sit on our Audit Committee and Strategic Management Board. They are paid £400 a day for each day they work on our behalf.



Jacky Ridley - Chief Executive

25 July 2009



## The Accounts 2008 - 2009

## Foreword to the Accounts

1. These accounts relate to the tenth year for which we have had to produce full financial accounts. We have prepared the accounts in line with a direction given by the Treasury under Section 7(2) of the Government Resources and Accounts Act 2000.

### Background

2. The DVA is an Executive Agency of the Ministry of Defence, within the budget area of the Central Top Level Budget (TLB). In financial reporting terms, it is a Basic Level Budget (BLB) reporting to the Director General (Security and Safety) as the Agency Owner and to the Personnel Director Higher Level Budget (HLB). For departmental resource account submission it holds the status of a Management Grouping reporting directly to the Central TLB.

3. The Agency was formed on 1st April 1997, bringing together the four vetting units of the 3 Armed Services and of HQ MOD. The Agency is located at Imphal Barracks, York.

### Our main activity

4. Our main activity is to carry out security checks on individuals in the Armed Services, the MOD Civil Service, Other Government Departments and in the Defence Industry. The purpose of the checks is to provide a level of assurance as to how suitable those individuals are to hold security clearances or to be allowed access to military installations, to valuable assets and to classified information.

### Business Review

5. The Agency was set key targets covering quality, timeliness and efficiency. You can find full details of these key targets, including comments and performance, in part 1 of this annual report.

### DVA Owner's Advisory Board

6. The Secretary of State for Defence delegates ownership responsibilities to the Director General (Security and Safety) (DG(S&S)). The Owner is responsible for:

- a. setting the strategic direction of the Agency.
- b. setting the policy and standards to be followed by the Agency.
- c. approving the Agency corporate and business plans, and the key targets within these, and
- d. approving the Agency's annual budget.

7. The DVA Owner's Advisory Board (DVA OAB) is available to DG(S&S) to provide advice on the responsibilities outlined above. The members of the OAB during 2007-2008 are shown below.

### Chairman:

Mr R Rooks ..... DG S&S

### Members:

Brig R Barrons (to Feb 08) ..... ACOS Cts Land Command

Brig J Everand (from Feb 08) ..... D Commitments

Ms H Smith ..... DGCP HR Ops

Mr D Reynolds ..... DDef Sy

### External Members:

Mr G Gardiner (from Feb 08) ..... Defence Industry Security Association

Mr M Fuller ..... Hd of Security Policy, Cabinet Office

Ms A Porter ..... Non Executive Director

8. Membership of the OAB is an ex-officio appointment for the MOD staff detailed above. Their salaries and expenses are paid for by the Department. The external board members receive no payment from the Agency.

### Agency Chief Executive

9. As the Chief Executive of the DVA I am responsible for all aspects of the day-to-day running of the agency. I answer to the Principal Accounting Officer of the MOD (the Permanent Under Secretary) for the propriety and regularity of the Agency's expenditure along with its prudent and economical administration. I was appointed as Chief Executive through civil service open competition recruitment. Civil service management code regulations will apply on termination of my appointment as the Chief Executive and other members of the Management Board.

## Foreword to the Accounts (continued)

### DVA Management Board

10. The main mechanism through which I as the Chief Executive, carry out my responsibilities is through the Agency's Management Board (AMB). This meets every month. The members during 2008-2009 are shown below.

#### Chairman:

Mrs J Ridley ..... Chief Executive

#### Members:

Miss A Hulme (from 24 May 2007) ..... Hd Vetting Ops

Mrs J Shaw ..... Hd Primary & Developed Vetting Division

Mr M Revell (to 30 April 2008) ..... Hd of Customer Relations and Marketing

Miss J Coates (from 23 February 2009) ..... Hd of Customer Relations and Marketing

Mr B Truscott (from 30 April 2008 to 23 February 2009) ..... Customer Relations and Marketing

Mr M Wraight ..... Hd Policy Plans & Quality

Mr M A Calaminus ..... Hd FI Division

Mr M K Barley (to 17 July 2008) ..... Hd of Planning

Mr Fairbotham (from 17 July 2008) ..... Hd of Strategic Programme

Mrs S J Farley ..... Hd of Resources

11. You can find details of the salaries and pension entitlements of the Chief Executive and other members of the Management Board in the Remuneration Report.

### Employment Policies

12 The Agency's policy is to employ and promote staff on the basis of individual merit and not to discriminate.

### Staff Involvement, Development and Training

13. The Agency keeps staff informed through individual and group briefings, personal letters and newsletters. The DVA Training and Development Plan reflects the Agency's training and development needs as well as those of the MOD. An induction programme is provided for all new people joining the Agency. The Agency is accredited with the Investors in People Standard.

### Policy on the Payment of Creditors

14. All the Agency's bills are paid through the Financial Management Shared Service Centre (FMSSC), which took over the responsibilities of the Defence Bills Agency. In the period 1 April 2008 to 31 March 2009, the FMSSC paid 99.76% of all correctly submitted bills within 11 calendar days, ensuring that the Department is in compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998.

### Pension Arrangements

15. On 1 October 2002 new Civil Service pensions arrangements came into effect. From that date all new entrants to the Department have the option to join either the new defined benefits (DB) scheme, known as 'Premium' or to join the new defined contributions (DC) scheme known as the 'Partnership Pension Account'.

16. Under the new arrangements, new people cannot join the current Principal Civil Service Pension Scheme (PCSPS), which has now been renamed the 'Classic' and has become a closed scheme. Existing members of the PCSPS can stay in classic, choose to transfer to premium or choose 'Classic Plus' where they will transfer to premium but only for their service after 1 October 2002.

17. The Department makes regular payments of Superannuation Contributions Adjusted for Past Experience (SCAPE) into the relevant pension schemes at rates set by the Government Actuary. Liability for payment of future pension benefits to members is a charge on the schemes and not a liability of the Department.

### Auditors

18. The Accounts are audited by the Comptroller and Auditor General in line with Section 7(3) of the Government Resources and Accounts Act 2000. During the year the charges to the Operating Cost Statement for audit services provided were £38,000. No non-audit services were provided. Internal audit services are provided by the MOD Directorate of Internal Audit.

### Statement on Disclosure to Auditors

19. So far as I am aware, there is no relevant audit information of which the DVA's auditors are unaware, and I have taken all steps to make myself aware of any relevant audit information and to make sure that the DVA's auditors are also aware of that information.



Jacky Ridley - Chief Executive  
25 June 2009

## Statement of the Agency's and Accounting Officer's Responsibilities

Under Section 5(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Defence Vetting Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction dated 18 December 2008. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts the Agency is required to :

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- make judgements and estimates on a reasonable basis.
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Departmental Accounting Officer for the Ministry of Defence has designated the Chief Executive of the Defence Vetting Agency as the Accounting Officer for the Agency. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in the Government Financial Reporting Manual.

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## Statement on Internal Control

### The Scope of Responsibility

As Accounting Officer for the Defence Vetting Agency, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by the Department's Ministers. In addition I am responsible for safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Agency's Corporate Governance arrangements benefit from active involvement with a number of individuals and bodies who have the knowledge and expertise to aid me in properly discharging my role as Accounting Officer. The Agency Strategic and Management Boards both offer me assistance and advice and the National Audit Office and Directorate of Internal Audit both work together with members of the Agency Risk and Assurance Committee to provide support on audit matters, work plans and financial and risk items.

### The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Agency's system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency during the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to Handle Risk

Risk management has been built into the corporate planning and programme management systems. The Agency fully recognises the principles for public risk management.

Executive managers within the Agency undertake development and maintenance of the system. In particular it includes:

- comprehensive budgeting systems with an annual budget which is agreed as part of MOD's resource allocation process.
- regular reviews by the Agency's Management Board of periodic and annual financial reports which indicate financial performance against the forecasts.
- setting targets to measure financial and other performance.
- clearly defined capital investment control guidelines.
- formal project management disciplines.
- Regular reviews of the Agency's Key risks and actions being taken to minimise the effects of these risks.

### **The Risk and Control Framework**

The following governance processes were established during 2008/9:

- Additional audits were provided by the DIA following recommendations by the Audit and Risk Assurance Committee.
- The Assurance programme was reviewed by the Agency Audit and Risk Assurance Committee and implemented in year. This programme was reviewed at quarterly Committee meetings and additional assurances sought and implemented as required.
- The Agency's central record of all audits carried out by the Directorate of Internal Audit on the Agency was updated in year. All recommendations together with any management action taken were reviewed and updated on a quarterly basis.

The Agency has in place a management risk register which is reviewed by the Agency Strategic and Management Boards together with the Audit and Risk Assurance Committee on a regular basis.

This provides the Agency with the ability to identify new or emerging risks and, where possible, agree and put in place risk mitigation actions.

### **Review of Effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, the stewardship statements and advice received from the Agency's 2 Non-Executive Directors and comments made by the external auditors in their management letters and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Agency Management Board together with the Audit and Risk Assurance Committee are adhering to a policy of continuous improvement to examine the existing internal processes within the organisation and provide a comprehensive and forward looking process of risk management, compliance and assurance for myself as the Accounting Officer.

The Defence Vetting Agency is subject to audit by the MOD Directorate of Internal Audit (DIA), which operates to standards defined in the Government Internal Audit Manual. The work of the internal auditors is informed by an analysis of the risks to which the Department as a whole is exposed, and annual audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Defence Audit Committee and approved by the Permanent Under Secretary. Given the size of the Agency in relation to the Department, it follows that the Agency's system of internal control is not separately examined by the DIA every year. The DIA undertook 3 new internal audit examinations within the Agency during the 2008-2009 financial year. The audits covered the Agency's Key Targets (no adverse comments received), Fees and Charges, and Corporate Governance and Risk Management. The areas within the Fees and Charges and Corporate Governance Audits that warranted comment and a management action plan, are all currently being addressed.

This work will also include a review of internal guidance and policies to ensure that all improvements in Corporate Governance especially are embedded within the Agency. There was also one follow up Audit on Workforce Planning together with a consultancy exercise undertaken on Performance Management Systems. The Agency also contributed towards the pan MOD Information Assurance Audit and was commended on a number of initiatives undertaken within the organisation, and also a pan TLB Audit on Transaction Processing and was commended on its financial controls within the organisation.



Jacky Ridley - Chief Executive  
25 June 2009

# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Defence Vetting Agency for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Agency, the Chief Executive and auditor**

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, given in the Annual Report, which comprises the Management Commentary, What we do, Key Target Performance, Business Review, and the part of the Remuneration Report not subject to audit, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information includes the Management Commentary, What we do, Key Target Performance, Business Review, and the part of the Remuneration Report not subject to audit. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud

or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## **Opinions**

In my opinion: the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2009, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;

the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and information given in the Annual Report, which includes the Management Commentary, What we do, Key Target Performance, Business Review, and the part of the Remuneration Report not subject to audit, included within the Annual Report, is consistent with the financial statements.

## **Opinion on Regularity**

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## **Report**

I have no observations to make on these financial statements.

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria London  
SW1W 9SS

1 July 2009

# The Accounts

## Operating Cost Statement for the Year Ended 31 March 2009

	Note	2008/09 £000	2007/08 £000
<b>OPERATING COSTS</b>			
Staff Costs	2	12,561	10,992
Supplies and Services Consumed	3	2,289	2,415
Accommodation Costs	4	763	525
Other Administration Costs	5	1,823	1,586
<b>GROSS OPERATING COSTS</b>		<b>17,436</b>	<b>15,518</b>
<b>OPERATING INCOME</b>			
Less income from repayment customers	6	3,205	2,521
<b>OTHER INCOME</b>			
		0	0
<b>NET OPERATING COST</b>		<b>14,231</b>	<b>12,997</b>

All activities undertaken during the year are continuing.

## Statement of Recognised Gains and Losses for the year ended 31 March 2009

	Note	2008/09 £000	2007/08 £000
Net Gain on revaluation of tangible fixed assets.	12	2	1
<b>Recognised gains &amp; losses since last annual report</b>		<b>2</b>	<b>1</b>

The notes on pages 27 to 34 form part of these Accounts.

## Balance Sheet As at 31 March 2009

	Note	31 March 2009	31 March 2008
		£000	£000
<b>FIXED ASSETS</b>			
Tangible Assets	7	873	303
<b>CURRENT ASSETS</b>			
Debtors and Prepayments	8	882	723
<b>CURRENT LIABILITIES</b>			
Creditors due within one year	9	(804)	(294)
<b>NET CURRENT ASSETS</b>		78	429
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		951	732
<b>Taxpayers' equity</b>			
General Fund	10	939	722
Revaluation Reserve	12	12	10
		951	732

*Jacky Ridley*

Jacky Ridley - Chief Executive  
25 June 2009

## Cash Flow Statement for the year ended 31 March 2009

	Note	2008/09 £000	2007/08 £000
<b>NET cash outflow from operating activities</b>	13	12,334	11,659
Capital Expenditure:			
Payments to acquire tangible fixed assets	7	726	78
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		13,060	11,737
Financing:			
Payments on Defence Resource Account		16,264	14,258
Receipts on Defence Resource Account	6	(3,205)	(2,521)
<b>NET financing from defence resource account</b>		13,060	11,737
<b>INCREASE/(DECREASE) IN CASH</b>		0	0

The notes on pages 27 to 34 form part of these Accounts.

# Notes to the Accounts

## 1. Accounting Policies

### a. Statement of Accounting Policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury and the Treasury Accounts Direction issued on 18 December 2008. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### b. Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

### c. Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected is accounted for centrally by the Ministry of Defence. The Agency's accounts do however, include non-recoverable VAT attributable to its activities.

### d. Income

Income includes the value of transactions for services to repayment customers. The amounts charged are calculated to reflect the full cost to the Agency of providing the service. No value is attributed in the accounts to services provided to the Ministry of Defence. The funding of the Agency by the Ministry of Defence is shown in cash terms in the Cash Flow Statement.

### e. Notional Charges

#### i. Audit Fee

DVA is not charged an audit fee by the National Audit Office. The audit fee represents a notional charge to the Operating Cost Statement based on the cost of services provided.

#### ii. Intra-departmental Services

Notional amounts are included in the operating costs for charges in respect of services provided from other areas of the Ministry of Defence. The amounts charged are calculated to reflect the full cost of providing these services to the Agency.

### iii. Cost of Capital

A notional charge for cost of capital is included in operating costs. This is calculated as 3.5 percent on the monthly average value of net total assets. The Imphal Barracks site owner notifies a notional agency cost of capital charge.

### f. Tangible Fixed Assets

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from the Defence Vetting Agency to other parts of the Department. As the Agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21.

### g. Capitalisation and Revaluation

Items are capitalised where the useful life exceeds one year. The values of fixed assets are revised annually, between formal revaluations, using indices provided by the Department.

Any reduction in the valuation below historical cost arising either from the use of indices or from professional revaluation is treated by the Agency as an impairment and is charged to the Operating Cost Statement.

The capitalisation level of the Agency is set at £2,000.

### h. Depreciation

Depreciation is provided at rates calculated to write off the cost of acquisition or valuation by equal instalments over the asset's estimated useful life. Asset lives are periodically reviewed for technical obsolescence. Estimated useful lives are as follows:

i. Asset Category	Estimated useful life in years
Networked Computer Systems	5
Personal computers	4
Vetting Software	7
Office equipment	10-15
Plant and Machinery	15-20

### j. Creditors due within one year

Creditors due within one year represent the amount due to suppliers within one year for goods and services received including accrued expenses and liabilities.

### k. Stocks

The Agency does not hold significant stocks.

### l. Cash Balances

The Agency does not hold any cash balances in its own right. Minor transactions are cleared through local cash offices administered through the Ministry of Defence central accounting organisation and brought to account by the Ministry of Defence in the Departmental Resource Account and are disclosed in aggregate in the Cash Flow Statement.

## Notes to the Accounts (continued)

### m. Pension Costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Defence Vetting Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Defence Vetting Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2008-2009, employer's contributions of £1,709,149

were payable to the PCSPS (2007-2008, £1,562,950) at rates in the range 17.1 to 26.5 per cent of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

### n. Taxation and Social Security Liabilities

As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance contributions, due to Agency employees, the Department is liable for the payment of any liabilities which may be due to HM Revenue and Customs or Department for Works and Pensions at the balance sheet date, and these are not disclosed in the Agency's balance sheet.

## 2. Staff Costs and Numbers

### a. Staff costs were as follows:

	2008/09	2007/08
	£000	£000
Salaries, Wages and Allowances	9,676	8,653
Social Security Costs (ERNIC)	874	629
Other Pension Costs	1,709	1,563
Cost of Employing Agency Staff	502	147
	<hr/> 12,561	<hr/> 10,992

### b. The average number of employees during the year was as follows:

	2008/09	2007/08
Senior Management	8	9
Executive Grades	98	74
Administrative Grades	156	152
Specialist Investigating Grades	145	138
Agency Staff	39	13
	<hr/> 446	<hr/> 386

## Notes to the Accounts (continued)

### 3. Supplies and Services Consumed

Supplies and Services consumed comprise cash costs and notional cost elements as follows:

	2008/09 £000	2007/08 £000
Support Services	441	614
Contract/Consultant Staff	928	901
IT Maintenance and Software	920	900
	<hr/>	<hr/>
	2,289	2,415

Supplies and Services consumed include £793k of Notional Costs.

### 4. Accommodation and Associated Costs

Accommodation and Associated Costs comprise cash costs and notional cost elements as follows:

	2008/09 £000	2007/08 £000
Contribution in lieu of rates	33	31
Utilities	73	72
Telecommunications	175	194
Works and Maintenance	482	228
	<hr/>	<hr/>
	763	525

Accommodation and Associated Costs include £217k of Notional Costs.

### 5. Other Administration Costs

Other Administration Costs comprise cash costs, non-cash costs and notional cost elements as follows:

	2008/09 £000	2007/08 £000
Travel and Subsistence	1,008	802
Office Running Costs	213	164
Legal Fees	1	42
Training	64	58
Services provided by MOD	312	277
Depreciation	104	123
Write off of USAF Debtor	----	22
Write Down on Fixed assets	57	46
Foreign currency stabiliser	1	1
Audit Fee	38	38
Cost of Capital Charge	25	13
	<hr/>	<hr/>
	1,823	1,586

Other Administration costs include £339k of Notional Costs. No remuneration was paid to the auditors in respect of non audit work. Legal Fees relate to a tribunal case that was raised against the MOD in FY 07/08. The MOD was successful in its defence of this case.

## Notes to the Accounts (continued)

### 6. Operating Income

The sources of operating income for the year were:

	2008/09	2007/08
	£000	£000
Repayment for Services provided to Other Government Departments	2,846	2,192
Repayment for Services provided to Commercial Organisations	284	273
Repayment for Services provided to Overseas Governments	75	56
	<b>3,205</b>	<b>2,521</b>

Rates charged to repayment customers for Vetting Services are based on the requirement to recover the full cost to the Agency of providing such services. As the above table shows income of £3.205M was received in Financial Year 2008/09 with no surplus/deficit being incurred by the DVA. The Financial Objective was therefore achieved.

### 7. Tangible Fixed Assets

	P & M	IT&Comms	Assets Under Construction	Total
<b>Cost/Valuation</b>	£000	£000	£000	£000
At 1 April 2008	127	952	78	1,157
Additions	----	----	726	726
Revaluations	4	(52)	(5)	(53)
Disposals	----	----	----	----
At 31 March 2009	131	900	799	1,830
<b>Depreciation</b>				
At 1 April 2008	53	800	----	853
In Year Charge (Including backlog)	10	94		104
Disposals	----	----	----	----
At 31 March 2009	63	894	----	957
<b>NET BOOK VALUE</b>				
At 31 March 2009	68	6	799	873
At 31 March 2008	73	152	78	303

The £ 53,000 (2007-08: £46,000) adjustment arising from the downwards revaluation of IT assets in 2008-2009 is regarded as an impairment in the value of fixed assets and has been charged to the Operating Cost Statement under the heading of Other Administration Costs (Note 5).

## Notes to the Accounts (continued)

### 8. Debtors and Prepayments

Amounts falling due within one year

	31 March 2009 £000	31 March 2008 £000
Balances with Other Government Departments	510	205
Balances with Local Authorities	231	68
Balances with National Health Trusts	----	----
Other Trade Debtors and Accrued Income	90	423
Prepayments	51	27
	<hr/> 882	<hr/> 723

There were no debtors falling due after more than one year. Services to the value of £2,050 will be received within the next 15 months and are included as part of the prepayment figure.

### 9. Creditors

Amounts falling due within one year

	31 March 2009 £000	31 March 2008 £000
Other Trade Creditors	350	70
Accruals	454	224
	<hr/> 804	<hr/> 294

No balances were held with Other Government Departments, Local Authorities or National Health Trusts.

### 10. General Fund Reconciliation

	Note	2008-09 £000
General Fund: Opening balance 1 April 2008		725
Financing from the Defence Resource Account		13,060
Notional Items	11	1,385
Less:		
Net Operating Costs		(14,231)
Net increase in General Fund		<hr/> 214
General Fund: Closing balance 31 March 2009		939

## Notes to the Accounts (continued)

### 11. Non-cash and Notional Items

The non-cash and notional cost elements included under the headings of staff costs, supplies and services consumed, accommodation and associated costs, and other administration costs are as follows:

	Note	2008/09 £000	2007/08 £000
Notional Costs:			
Staff Costs		----	----
<hr/>			
		----	----
Supplies and Services consumed -			
IT Maintenance & Software	3	512	621
Higher Formation Costs	3	281	467
<hr/>			
		793	1,088
Accommodation and Associated Costs -			
Works and Maintenance	4	217	178
<hr/>			
		217	178
Other Administration Costs -			
Training	5	----	----
Services provided by MOD	5	312	277
Audit Fee	5	38	38
Cost of Capital Charge	5	25	13
<hr/>			
		375	328
Total Notional Costs		1,385	1,594
<hr/>			
Other non-cash costs			
Other administration costs -			
Depreciation	5	104	123
Write down of fixed assets	5	57	46
<hr/>			
		161	169
<hr/>			

## Notes to the Accounts (continued)

### 12. Reserves - Revaluation Reserve

	Note	2008/09 £000
Balance as at 1 April 2008		10
Arising from positive revaluation during the year	7	2
Balance as at 31 March 2009		11

The revaluation reserve reflects the unrealised gain following indexation and revaluation adjustments. Reductions in values of assets not previously accounted for are charged to the Operating Cost Statement.

### 13. Reconciliation of Net Operating Costs to Operating Cost Cash Flows

	Note	2008/09 £000	2007/08 £000
NET OPERATING COST		14,231	12,997
Adjustments for notional and non-cash transactions:			
Depreciation	11	(104)	(123)
Impairment of fixed assets	11	(57)	(46)
Notional costs included in:			
Supplies and Services Consumed	11	(793)	(1,088)
Accommodation and associated costs	11	(217)	(178)
Other Administration Costs	11	(375)	(328)
Movements in net current assets:			
Increase/(Decrease) in debtors and prepayments	8	159	229
(Increase)/Decrease in creditors	9	(510)	196
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>		<b>12,334</b>	<b>11,659</b>

## Notes to the Accounts (continued)

### 14. Related Party Transactions

The Defence Vetting Agency is an Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. During the period 1 April 2007 to 31 March 2008 the Defence Vetting Agency has had significant material transactions with the Ministry of Defence. In addition the Agency has had a number of transactions with other Government Departments (principally the Home Office, National Criminal Intelligence Service, Cabinet Office, Department for Business, Enterprise and Regulatory Reform (formerly Department of Trade and Industry) and HM Revenue and Customs). During the year none of the senior staff and other key management staff, or other related parties, has undertaken any material transactions with the Defence Vetting Agency.

### 15. Post Balance Sheet Events

There have been no events since the end of the financial year which would affect the understanding of the financial statements. I can confirm that the date of issue of the financial statements is that on which they were signed by myself as Chief Executive and Accounting Officer for the Agency.

### 16. Capital Commitments and Contingent Liabilities

There were no capital commitments or contingent liabilities as at 31 March 2009.

### 17. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the largely non-trading nature of its activities and the way in which government Agencies are financed, the Defence Vetting Agency is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Financial assets and liabilities are

generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their book values. In line with FRS 13, short term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures.

#### Interest rate risk

The Agency has no financial assets and liabilities on which interest is earned or paid, and is therefore not exposed to significant interest rate risk

#### Currency risk

The Agency does not hold assets or liabilities denominated in a foreign currency, and income and expenditure denominated in a foreign currency is negligible. The Agency is therefore not exposed to significant currency risk.

The Ministry of Defence, through whose Resource Account the Agency is financed, enters into forward purchase contracts annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. Small gains/losses in foreign currency transactions may occur as a result of minor transactions falling outside the remit of the forward purchasing agreement. The details of the outstanding foreign currency contracts are given in the Departmental Resource Account.

#### Liquidity Risk

The Agency is not exposed to significant liquidity risk, as liquidity requirements are met by financing from the Ministry of Defence Resource Account, and it has no borrowing facilities. The Department's resource requirements are voted annually in Parliament

### 18. Losses and Special Payments

There were no losses or special payments that required disclosure within the accounts as at 31 March 2009.



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